LIMITATIONS OF ACTIVE SHARE

- Active share measures how much a portfolio deviates from its benchmark index. It is calculated by summing all the absolute differences between the portfolio weights ($W_{portfolio}$) and benchmark weights (W_{index}) of all securities (N) and dividing the total by two.

$$Active\ Share = \frac{1}{2}\sum_{i=1}^{N}|W_{portfolio,i} - W_{index,i}|$$

- Higher active share is neither necessary nor sufficient for better performance.
- Using active share as single evaluation metric risks misclassifying skillful managers.

Active share is used as a metric to assess how much a portfolio deviates from its benchmark, often interpreted as an indicator of differentiated positioning or manager skill. A higher active share score is generally expected for an active manager, reflecting differentiated positioning and a willingness to take distinctive investment views. The concept has been widely adopted across the investment industry as a proxy for how active a manager is.

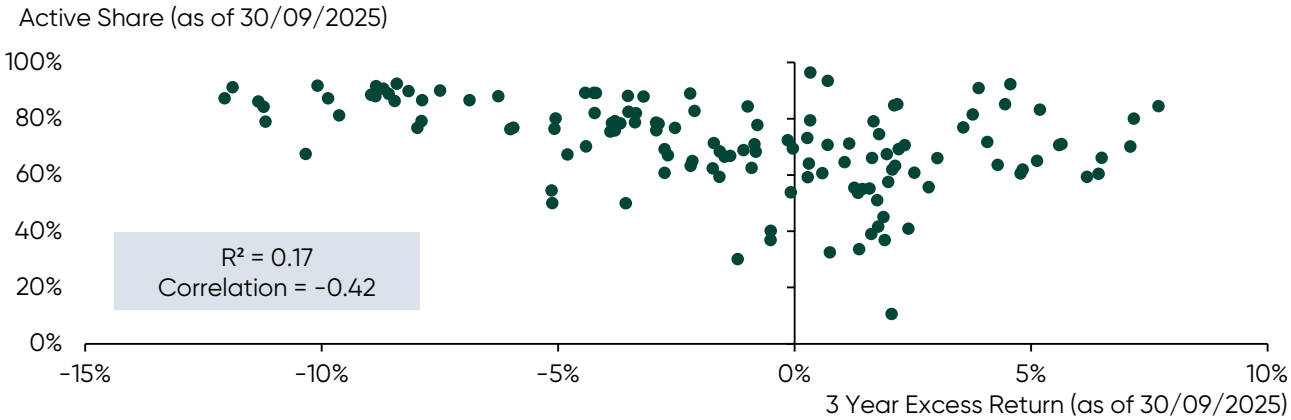
However, this simple interpretation has brought several persistent myths about what active share represents. Many investors assume that managers with higher active share are more skilled or deliver higher alpha, yet empirical evidence shows this assumption is unfounded. Funds may hold very distinct portfolios from their benchmarks but still fail to outperform. Furthermore, active share itself does not reveal how active or effective a manger is, as active share only captures structural difference.

This report aims to clarify what active share truly represents, identify the structural factors behind it, and provide guidance on how to apply the metric effectively. Throughout this study, we use the eVestment Global Large Cap Core universe benchmarked to the MSCI World (as of 30/09/2025) as our sample universe.

ACTIVE SHARE VS. PERFORMANCE

Several findings challenge the conventional belief that higher active share drives outperformance. Not all differences in holdings between a portfolio and an index will have the same impact on relative performance. Exhibit 1 shows no consistent link between higher active share and outperformance, confirming that active deviation alone does not predict alpha. The correlation between average active share and three year excess return as of 30/09/2025 was –0.42 (R^2 = 0.17), indicating limited statistical relationship.

Exhibit 1. Correlation Between Active Share and Excess Return (Trailing 3 Year)



Source: eVestment, as of 30/09/2025. Returns illustrated above represent trailing 3 year returns for the Global Large Cap Core Manager (against the MSCI World index) calculated using monthly returns from 01/10/2022 – 30/09/2025. Data in USD.

To understand why active share and performance show such weak correlation, the next section explores the underlying structural and market factors that shape active share readings.

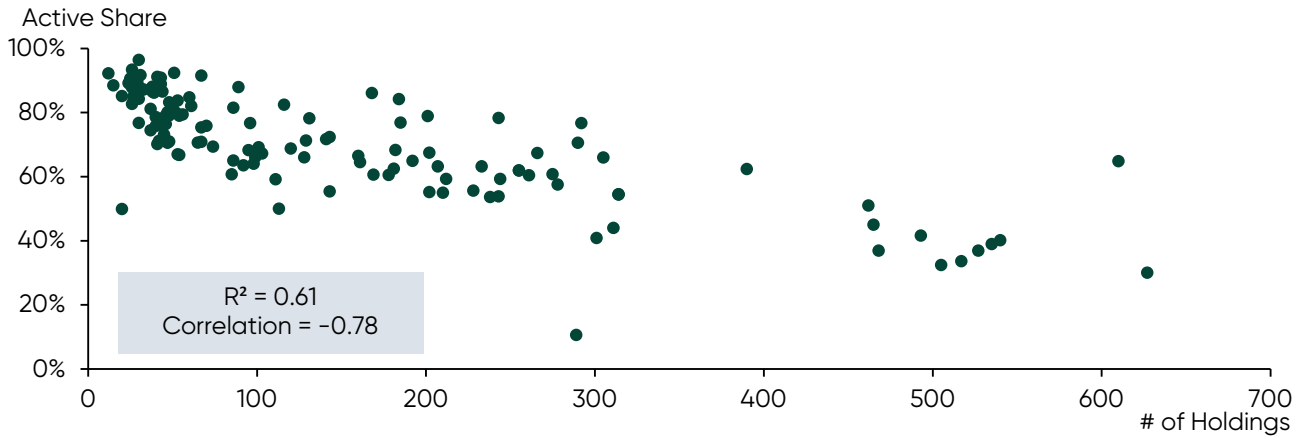
WHAT REALLY DRIVES ACTIVE SHARE

(1) Portfolio Construction

Portfolio structure is one of the key determinants of active share. Managers design portfolios by selecting securities, allocating weights, and balancing risks based on their investment philosophy and outlook. Many factors such as the number of holdings, concentration level, and market cap exposure materially influence how active a portfolio appears.

The number of holdings negatively correlates with active share (Exhibit 2). Portfolios with fewer holdings tend to display higher active share because concentration naturally creates greater deviation from benchmark weights. Conversely, diversified portfolios with a larger number of holdings show lower active share, even if they are based on high conviction themes. For example, as Exhibit 3 shows, portfolios with fewer holdings (Bottom Quartile) show significantly higher active share than portfolios with more holdings (Top Quartile), underscoring that active share reflects how portfolios are built, not their performance.

Exhibit 2. Correlation Between Number of Holdings and Active Share



Source: eVestment, as of 30/09/2025. Universe used is the Global Large Cap Core Manager (against the MSCI World index).

Exhibit 3. Active Share Distribution by Number of Holdings

Quartile (Number of Holdings)	Number of Holdings	Average Active Share
1	> 211	52.3%
2	87 - 211	68.3%
3	44 - 86	78.2%
4	< 44	84.6%

Source: eVestment, as of 30/09/2025. Universe used is the Global Large Cap Core Manager (against the MSCI World index).

Furthermore, the size of holdings can inflate active share readings. As Exhibit 4 shows, when portfolios are grouped by their weighted average market capitalisation, those in the bottom quartile of market size exposure show higher average active share (around 81.6%), whereas portfolios in the top quartile show substantially lower active share (around 73.0%). Portfolios tilted toward smaller cap stocks exhibit higher active share. As market capitalisation increases, benchmark overlap rises, mechanically reducing active share.

Exhibit 4. Average Active Share by Weighted Average Market Cap

Quartile (Market Cap)	Market Cap (bn USD)	Average Active Share
1	> 950	62.8%
2	836 - 950	64.8%
3	640 - 835	72.0%
4	< 640	84.6%

Source: eVestment, as of 30/09/2025. Universe used is the Global Large Cap Core Manager (against the MSCI World index).

This demonstrates that a meaningful portion of active share variation can be explained by portfolio structure, rather than by differences in manager skill.

(2) Benchmark Selection

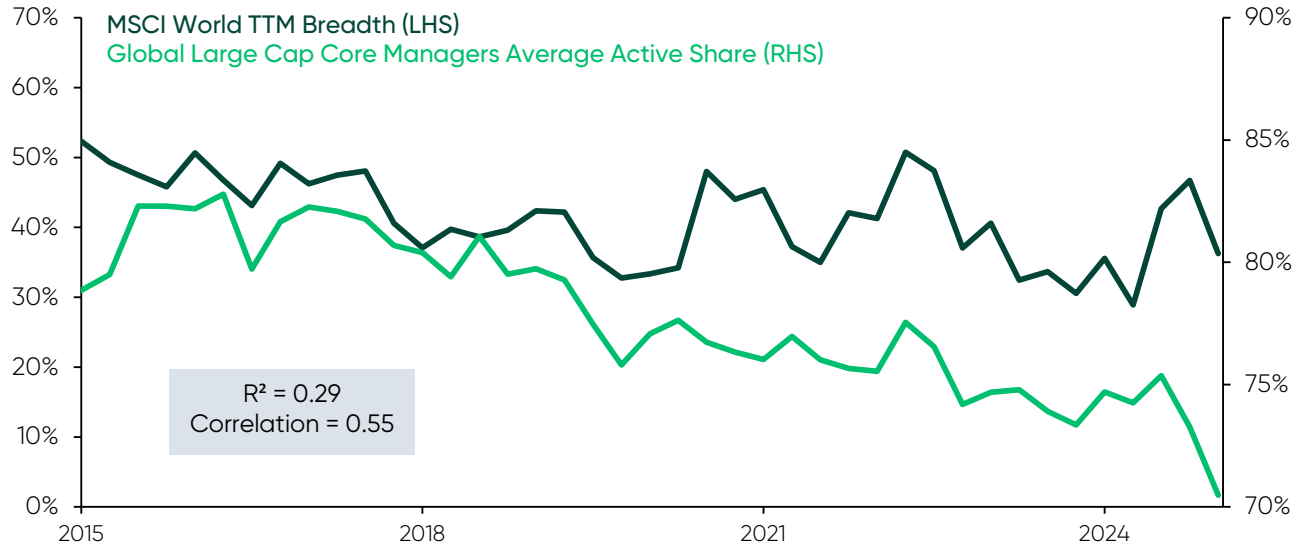
Benchmark selection plays a pivotal role in determining a portfolio's active share. Even if two portfolios hold identical securities, their active share can differ substantially depending on the benchmark chosen.

Broader benchmarks capture more of the securities the manager holds, automatically reducing deviation. However, for the same portfolio, narrower or more concentrated benchmarks where a few mega caps dominate total index weight tend to produce higher active share. For example, a portfolio benchmarked against the MSCI World Index, which covers approximately 85% of the free float-adjusted market capitalisation in 23 Developed Markets (DM) countries, will naturally exhibit a lower active share than the same portfolio benchmarked against a narrower index. The difference arises purely from benchmark selection, not from changes in portfolio composition.

(3) Market Breadth

Market breadth (the degree to which a few larger stocks drive market performance) also has an impact on active share. In times when market breadth is narrow, benchmark concentration increases, often distorting active share readings. As market breadth declines, average active share across portfolios fell over the last 10 years (Exhibit 5), highlighting how shifts in market structure can influence active share readings.

Exhibit 5. Historical Market Breadth and Active Share



Source: International Data Corporation (IDC) and eVestment, Data from 30/09/2015-30/09/2025. Universe used is the Global Large Cap Core Manager (against the MSCI World index).

Benchmark concentration compresses active share, particularly when managers strategically take a neutral position to these large benchmark constituents. As a small group of mega cap constituents takes up a share of benchmark weights, the remaining portion of the benchmark for differentiation shrinks. As a result, despite maintaining diversified exposure elsewhere (i.e. smaller stocks), the cumulative weight differences between portfolio holdings and the benchmark are relatively limited, leading to a lower active share. For example, consider a portfolio having 100 securities, with 25% of its total weight in the Magnificent 7. If the benchmark has an identical 25% allocation to the same group, active share is capped at 75% even if the other 93 holdings are entirely off benchmark.

This has been evident in recent years where a handful of mega cap stocks dominated US and global indices which tended to make active share appear lower, all else equal. As of 30/09/2025, the Magnificent 7 represented over 23% of the MSCI World Index and 33% of the S&P 500 Index. This concentration compresses active share across many managers.

CONSIDER COMPLEMENTARY METRICS

Active share remains a valuable tool to analyse portfolios when interpreted correctly. Active share provides a snapshot of how distinct a portfolio is from its benchmark. However, it does not fully capture how those differences contribute to returns or risks, and it should not be evaluated in isolation. Investors should complement active share with other measures such as portfolio turnover, tracking error, and information ratio.

Exhibit 6 highlights the wide dispersion of performance and risk characteristics among managers with 3 year excess returns in the top quartile of the universe, indicating that successful active management can be achieved across a broad range of active share levels. The top quartile managers represent a large spread for active share between 11.0% and 93.3%, while the universe median active share is 74.9%. This reinforces that high active share is not a necessary condition for strong relative performance.

Moreover, Exhibit 6 shows substantial variation across other metrics such as market capture, standard deviation, tracking error, information ratio, sharpe ratio, beta and turnover. This dispersion indicates that excess returns can be generated through multiple portfolio construction approaches, including different risk and style profiles. This resonates that portfolio performance is not necessarily predictable based on one single metric. A more robust evaluation framework should therefore consider active share alongside complementary metrics.

Exhibit 6. Diverse Metrics of Excess Returns Top Quartile Managers

Metric (as of 30/09/2025)	Highest within Top Quartile Managers	Lowest within Top Quartile Managers	Universe Median
Active Share	92.2%	10.6%	66.1%
Excess Return	7.7%	1.9%	3.9%
Upside Capture	128.8%	89.8%	109.3%
Downside Capture	111.0%	44.7%	94.2%
Standard Deviation	19.9%	11.3%	13.3%
Tracking Error	12.0%	0.9%	3.7%
Information Ratio	2.34	0.34	1.18
Sharpe Ratio	2.06	1.21	1.67
Beta	1.30	0.82	1.01
Annual Turnover (LTM)	2.39	0.04	0.59

Source: eVestment, as of 30/09/2025. Analysis uses the eVestment Global Large Cap Core universe, with excess returns calculated using the MSCI World. Data calculated using monthly returns from 01/10/2022 – 30/09/2025. Data in USD. Annual Turnover (LTM) is calculated by taking the lesser of purchases and sales and dividing by the average annual market value of the investment multiplied by 100%.

CONCLUSION

While active share offers valuable insights into how a portfolio differs from its benchmark, it should not be mistaken for a measure of skill or a predictor of future returns. Portfolio concentration, benchmark structure, and market breadth all affect active share readings, without necessarily influencing the actual achievement of performance or other investment objectives. Managers are able to generate strong excess returns across a wide range of active share levels as well as dispersion in return and risk metrics. Therefore, active share should not be used as a single evaluation metric. Integrating active share with other measures such as market capture, standard deviation, tracking error, information ratio, and turnover will help to establish a comprehensive evaluation of active management.

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Fisher Asset management, LLC, trading as Fisher Investments, is an investment adviser registered with the Securities and Exchange Commission. As of 30 September 2025, FI managed $362 billion, including assets sub-managed for its wholly-owned subsidiaries. FI and its subsidiaries maintain three principal business units – Fisher Investments Institutional Group (FIIG), Fisher Investments Private Client Group and Fisher Investments Private Client Group International. These groups serve a global client base of diverse investors including corporations, public and multi-employer pension funds, foundations and endowments, insurance companies, healthcare organisations, governments and high-net-worth individuals. FI's Investment Policy Committee (IPC) is responsible for investment decisions for all investment strategies.

For purposes of defining "years with Fisher Investments," FI was established as a sole proprietorship in 1979, incorporated in 1986, registered with the US SEC in 1987, replacing the prior registration of the sole proprietorship, and succeeded its investment adviser registration to a limited liability company in 2005. "Years with Fisher Investments" is calculated using the date on which FI was established as a sole proprietorship through 30 September 2025.

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FIE outsources portfolio management to FI. FI's Investment Policy Committee (IPC) is responsible for all strategic investment decisions. The Joint Investment Oversight Committee (IOC) is responsible for overseeing FI's management of portfolios that have been outsourced to FI.

This document has been approved and is being communicated by Fisher Investments Ireland Limited.

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